

## MEMORANDUM

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**DATE:** Monday, January 6, 2014

**TO:** Richard Ellis, State Treasurer  
David Damschen, Deputy State Treasurer

**FROM:** Brain F. Baker  
Zions Bank Public Finance

**RE:** Monticello Academy Charter School

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The purpose of this report is to document Monticello Academy Charter School's ("Monticello," "MACS," or the "School") adherence to the eligibility standards created for participation in the Utah Charter School Credit Enhancement Program (the "Program"). The analysis contained herein is based on Monticello's full application to the State Charter School Finance Authority (the "Authority") as well as additional information and documents submitted in response to follow up requests by the Authority.

The School has provided all information requested subsequent to the submission of the initial application. All questions have been answered to my satisfaction. This report will examine each category of the Program's "Standards for Participation," including Basic Eligibility, Enrollment/Student Demand, Academic Performance, Management, Financial Performance, and Bond Documents. In each of these categories, the School met the basic eligibility requirements for participation in the Program, as detailed below. This report should be examined in direct conjunction with the Letter of Certification for Monticello Academy from the State Charter School Board ("SCSB Letter"), which provides detailed analysis and historical information on Enrollment/Student Demand and Academic Performance.

### **Monticello Academy—Introduction**

Monticello Academy is a K-9 charter school located in West Valley City. The School was founded in 2006, and originally served 675 students up through grade 8. Subsequently, the enrollment cap was increased to 750, and the School was authorized to serve grades K-12. Monticello has made the decision to not expand past 9<sup>th</sup> grade at this time. MACS will operate at its current full student authorization of 750 students for the 2013-2014 school year.

With 96% retention and approximately 1,475 students on the waiting list, they should not have a problem maintaining full or near-full enrollment into the future.

Monticello's focus and mission has remained constant from their original charter application. The mission statement reads:

*The mission of Monticello Academy is to provide a superior education for K-9 students by:*

*Placing a high priority on academic achievement and college preparation;  
Fostering traditional American values of hard work and strong moral character;  
Encouraging parents to resume their rights and responsibilities to influence the education of their children;  
Restoring strong art, music, and physical education components to the school curriculum;  
Utilizing state-of-the-art technology to enhance instruction and learning;  
Assisting students to gain knowledge, motivation, confidence, skills, and a lifelong love of learning.*

The School is looking to issue approximately \$10.975 million in revenue bonds to refinance bonds issued in 2007 for the acquisition of Monticello's existing facilities. Debt service savings is anticipated to be approximately \$100,000 per year. No additional funds are being raised from the issuance of the bonds.

### **Basic Eligibility**

1. Monticello's 2014 bonds will be issued through the Authority.
2. The SCSB Letter indicates that MACS is in good standing with the State Charter School Board.
3. The School has obtained an investment grade rating of "BBB-" from Standard & Poor's ("S&P"). Key credit concerns from the private rating report are listed below, followed by Zions' response to these concerns :
  - a. Moderately high pro-forma MADS debt burden of 16.6% based on fiscal 2013 expenditures—The debt burden is lowered by the Series 2014 refunding, and the 16.6% level is within an acceptable range.
  - b. Small, insular board—S&P highlights School intention to expand board to five members and use new full time manager to oversee operations.
  - c. History of management turnover—mitigated by recent move to full-time director.

S&P also cites the following as positive credit factors that offset the above-listed weaknesses:

- a. Strong demand as demonstrated by consistent full enrollment with substantial number of students on waitlist for all grades offered;

- b. Goods pro-forma maximum annual debt service coverage exceeding 1.0 for the last three years and increasing to 1.4x with refinancing savings based on fiscal 2013;
  - c. Above-average unrestricted days' cash on hand, at 102 as of June 30, 2013;
  - d. Relatively new, well-equipped facilities that will likely require minimum maintenance expense over the next several years;
  - e. Lack of expansion plans.
- 4. Monticello Academy has been in operation for 7 full years. Operational history, as demonstrated by past audited financials, indicate that the School has maintained a stable and consistent operating performance.
- 5. The School has a defined and specific mission based on CORE knowledge curriculum and Singapore math. Foreign language learning is incorporated as early as kindergarten.
- 6. MACS issued bonds in 2007 which will be refinanced by the 2014 bonds. Monticello is not in default under its existing bonds.

### **Enrollment/Student Demand**

- 7. The School has 752 students enrolled this year.
- 8. Since opening in 2006, Monticello has operated at full or near-full enrollment. Since 2007 the School has enrolled no fewer than 741 students, and has never seen a drop of more than 2% in any one year. Table 1 from the SCSB Letter includes detailed enrollment history back to 2006.
- 9. Monticello Academy exceeds the re-enrollment standard established by the SCSB in each of the past four years (the only years for which this data is available). The most recent total re-enrollment rate of 87.9%, coupled with the school's strong historical track record, indicate admitted students are staying through the final available grade. Table 2 from the SCSB Letter details historical enrollment and re-enrollment.
- 10. The School exceeds the ADM rate requirement. Over the last three years, MACS's Average Daily Membership rate has been 98.2%, 97.9%, and 98.5%.
- 11. The School has provided wait list statistics by grade, and has provided the detailed waiting list that includes descriptive and personal information on potential students to the Deputy State Treasurer. The current waiting list is very strong, and includes 1,475 potential students who were not selected through the lottery process for admission for the 2013-2014 academic year. The waiting list is strong and includes a substantial amount of students for every grade level offered.

## **Academic Performance**

12. The SCSB Letter indicates that the School meets required academic standards. Table 3 from the SCSB Letter provides a breakdown of Monticello Academy's performance relative to other schools. It is clear that the school is succeeding relative to other elementary schools in their service area, even though the overall academic scores are just slightly better than charter and total state averages.

## **Management**

13. The School has adopted reasonable management policies and practices that guide financial, debt, and risk management. The Board has adopted an acceptable Succession Plan as well as a Financial and Risk Management Plan. The post-issuance compliance section of this plan could include a few more specific actions related to compliance.
14. Monticello Academy has a diverse and stable Board with staggered terms. Though no board member possesses specific legal experience or background, there is clear expertise in management, marketing, education, and science.
15. The school has contracted with Red Apple Financial for financial management support. Red Apple meets weekly with the School's Director and provides monthly financial updates to the Board of Trustees. The Board oversees financial operations in their governance roll.
16. Monticello Academy's historical budgeted revenues and expenditures generally demonstrate "reasonable proficiency" in forecasting. The School saw revenues come in 6.3% lower than projections in 2011 due to state budget cuts, which we have seen as relatively common among charter schools that year.

## **Financial Performance**

The School meets all of the current requirements for the Financial Performance section of the application, although the School currently has a negative fund balance largely as a result of 2009 and 2010 financial results where revenues exceeded expenses by \$85,269 (2009) and \$161,663 (2010). The School has never (since opening in 2006) had a positive fund balance.

17. Projections used by the School in financial forecasting appear reasonable, and are simplified by the fact that growth in student population is not forecasted or needed. Monticello seems well positioned to continue with healthy financial standing. MACS revenues are forecasted to grow at a similar rate to expenses with the exception of benefits, which are projected to increase faster as an expense. The School appears to be in a reasonably healthy and improving financial position in spite of the negative fund balance.

## 18. Debt Coverage Ratio

Requirement	Measure	Sufficient?
At least 105%	120%	Yes

Debt coverage ratio is calculated by dividing total revenues available for debt service by the maximum annual debt service payment anticipated for the new bonds. Revenues available for debt service is calculated by taking fiscal year 2013 net income from operations of \$112,348 and adding back depreciation expense of \$246,067 and interest expense of \$668,723. This leaves net revenues available for debt service of \$1,027,138. When this number is divided by anticipated maximum annual debt service of \$845,650, the coverage is 120%.

For the past three years, this performance has been consistent.

	2013	2012	2011
Net Income Available for Debt Service	<u>\$1,027,138</u>	<u>\$1,064,481</u>	<u>\$1,064,472</u>
Maximum Annual Debt Service	854,650	854,650	854,650
Debt Coverage Ratio	120%	125%	125%

## 19. Debt Burden Ratio

Requirement	Measure	Sufficient?
Less than 25%	18%	Yes

The debt burden ratio requirement is based on the level of the School's fund balance, which we calculate at 26% (cash of \$1,193,097 divided by total operating expenses net of depreciation of \$4,518,224). Debt burden ratio is calculated as maximum annual debt service (\$845,650) divided by unrestricted operating revenues (\$4,630,572), taken from 2013 audited financial statements.

	2013	2012	2011
Maximum Annual Debt Service	<u>\$845,650</u>	<u>\$845,650</u>	<u>\$845,650</u>
Unrestricted Operating Revenues	4,630,572	4,603,639	4,494,216
Debt Burden Ratio	18%	19%	19%

The School has met the requirements for this metric each of the past five years.

## 20. Operating Margin

Requirement	Measure	Sufficient?
At least 7%	22%	Yes

Monticello Academy's operating margin requirement of 7% or greater is based on the calculation for days cash on hand (calculated as cash divided by operating expenses multiplied by 365) of 96 days. Operating margin of 22% is calculated by dividing net income available for debt service of \$1,027,138 (see calculation under Debt Coverage Ratio) by total revenues of \$4,630,572.

	2013	2012	2011
Net Income Available for Debt Service	\$1,027,138	\$1,058,481	\$1,064,472
Revenues	4,630,572	\$4,603,639	4,494,216
Operating Margin	22%	23%	24%

## 21. Current Ratio

Requirement	Measure	Sufficient?
At least 150%	181%	Yes

The current ratio is defined as current unrestricted assets (\$1,292,058 for 2013) divided by current liabilities (\$713,905). The School has exceeded a 150% current ratio each of the last three years, but did not in 2010.

Monticello Academy	2010	2011	2012	2013
Current Assets	789,585	728,190	1,020,166	1,292,058
Current Liabilities	612,220	435,247	570,357	713,905
Current Ratio	129%	167%	179%	181%

## Bond Documents

20-23. MACS's legal bond documents have been reviewed by Ballard Spahr in their capacity as bond counsel to the Authority, and all requirements have been incorporated. In addition, Chapman and Cutler, as bond counsel to Monticello Academy, has confirmed that each of the required legal provisions is present in the bond documents.